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1. Global economic briefs

- The US economy added 209,000 jobs in Jul-17, according to government data released last week, surpassing economists' expectations and suggesting the economy continues to thrive after an extended streak of job gains in recent years. The unemployment rate too ticked down to 4.3% in Jul-17 versus 4.4% in the previous month.
- Euro zone businesses started the second half of 2017 with robust growth although the pace slowed slightly from Jun-17 as a loss of momentum in Germany and France dragged on activity, as per the HIS Markit PMI survey. The print declined from 56.3 in Jun-17 to 55.7 in Jul-17.
- Bank of England kept interest rates at a record low on Aug 3rd and trimmed its forecasts for growth in 2017 and 2018 as the impact of Brexit weighed on households' spending power.
- Japanese Prime Minister Shinzo Abe said last week that he will stick to the government's goal of turning the country's budget balance to a surplus by fiscal 2020, but wants to do so by revitalising the economy.
- China's services sector expanded at a slightly slower pace in Jul-17 as new business growth eased, the Caixin/Markit PMI survey showed last week, pointing to potential softening. The print dropped to 51.5 in Jul-17 from 51.6 in the previous month.
- China's finance ministry has issued guidelines on overseas investment of state-owned enterprises, amid a campaign to tighten controls on outbound investment and financial risks.
- After relying on oil to fuel its economy for more than half a century, Saudi Arabia is now converting thousands of square kilometers of sand into new cities as it seeks to diversify away from crude, create jobs and boost investment. In the past month alone, the nation has announced two major developments - one covering an area bigger than Belgium and another that will include an airport and shipping port.
- In its latest Economic Update, a consultancy - Atradius Worldwide sees global economy strengthening further. As per its assessment, the world-wide growth is likely to increase 3.0% in 2017 and 2018 and it is underpinned by a strong US economy, falling unemployment and improving consumer and business confidence across advanced markets.

2. India: Agriculture and rural economic news

- Monsoon rainfall has been strong in India with 2% deficit in normal rainfall over the country since June 1st. In fact, 83% of the country's area has received normal rainfall this year. The regions that have received deficit rainfall in cumulative terms so far are South Peninsula and East & Northeast India.
- In cumulative terms, regions identified as "rain-deficient" until Aug 6th, are – Arunachal Pradesh, Assam & Meghalaya; West Uttar Pradesh; Marathwada, Vidarbha; South Interior Karnataka & Kerala.
- According to India's agriculture ministry data, the total sown area under kharif (summer) crops as on Aug 4, 2017, stood at 87.82 mln ha, up 2.6% (y-o-y). So far, more than 80.0% of the sowing of kharif crops -- paddy, pulses, oilseeds, cotton, sugarcane and jute -- has been completed and the planting will continue in some parts till next month.
- Paddy - the main kharif crop - was sown in 28 mln ha (up 4.9%, y-o-y), while pulses covered 12.13 mln ha (up 3.7%, y-o-y) so far. However, oilseeds acreage was down at 14.89 mln ha (down 10.0%, y-o-y). The overall acreage for all pulses is higher, except tur. With regard to cash crops, the overall area sown under cotton and sugarcane is higher than last year so far and the output is also expected to be better.
- Meanwhile, India's weather department sees El Nino-La Nina conditions to stay neutral until spring 2018. Even August rainfall in India is predicted at 99% of normal – unchanged from its previous forecast.

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3. India's overall economic & policy developments

- The IMF, in its report titled 'The 2017 External Sector Report', has outlined the vulnerabilities being faced by India's external sector. The report states that heavily relying on debt financing and portfolio inflows can create significant risks on account of intensified global financial volatility stemming from faster-than-anticipated normalisation of monetary policy in key advance economies and longer-than-expected cash normalisation following the currency exchange initiative.
- India's MPC took a calibrated policy decision to cut rates by 25 bps last week in the third bi-monthly monetary policy of the RBI while keeping the policy stance neutral. The neutral stance was retained because inflation trajectory is seen rising by the MPC members from the current lows. However, the current situation offered an opportune time for a rate cut on the back of normal monsoon, smooth GST rollout and inflation excluding food and fuel falling considerably over past three months.
- Retail price inflation for industrial workers in India measured by the CPI-IW, remained at the low level of 1.1% in June, 2017 also. Food group remained in the negative zone for the second consecutive month, recording a y-o-y fall of 1.3%.
- India's GST council will soon start publishing rates of various products. The move is expected to urge companies to pass on GST benefits including those from input tax credit to consumers. The process will include 150 items at first, according to a government official.
- Assets under management (AUM) of the mutual fund industry in India rose by 5.3% m-o-m to touch a record high of Rs.20 trillion by end-July 2017.
- According to India's Income Tax Department, there was a rise of 24% in the number of returns filed until Aug 5 - one of the highest growth rates in recent years. In all, 28.2 mln returns were filed by the extended deadline, compared to 22.7 mln in the same period last year, reflecting a rise of 24.2%.
- According to RBI, Indian banks loans and deposits rose at the pace of 6.2% and 10.4% on year respectively, as on July 21, 2017. While outstanding loans fell by Rs 172.5 bln to Rs 76.89 trln in the two weeks to July 21, aggregate deposits declined by Rs 275 bln to Rs 106.25 trln. The Credit-Deposit ratio remained flattish at 72.36% as on July 21st versus 72.34% as on July 7.
- India's Broad Money Supply, i.e., M3 growth stood at a lower 7.1 % (y-o-y), as on July 21, 2017 (versus 10.1% a year ago) primarily led by lesser currency in circulation with public (still down by 11.6%, y-o-y).
- India's foreign exchange reserves rose further by \$1.54 bln to reach the level of \$392.87 bln in the week to July 28, helped by a continuous increase in foreign currency assets, as per the latest RBI data. While the Special Drawing Rights with the IMF rose by \$3.9 mln to \$1.496 bln, gold reserves remained unchanged at \$20.35 bln.

4. India's industrial & services sectors scenario

- The Nikkei India Manufacturing Purchasing Managers' Index (PMI), an indicator of the economic health of the manufacturing sector, declined to an eight and a half year low of 47.9 in Jul-17 from 50.9 in the previous month. The implementation of GST weakened demand, causing both new orders and output to decrease. Even the services PMI print showed contraction to a four-year low in Jul-17 to 45.9 post GST. As a result, the seasonally adjusted Composite PMI Output Index which maps both manufacturing and services fell sharply to 46.0 in July, from 52.7 in June.
- The RBI governor has called for a separate single window mechanism for clearance of affordable housing projects as many are stuck at state government bodies. The governor feels affordable housing needs greater focus given its strong multiplier impact on growth.

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- India's GST council, on Aug 5th, reduced the GST rate on all job work related to the textile and apparel sector to five per cent from 18.0%. Earlier, the GST council had lowered the rate on job work only till the cut panel stage.
- Car and two-wheeler sales in India advanced at a brisk pace in Jul-17 as manufacturers dispatched more vehicles to their dealers to build stocks after the GST came into force on 1 July.

5. Indian money market review last week

- India's weighted average call money rate (WACR) averaged at 5.97% last week (July 31 – Aug 4) versus 6.05% in the week earlier (July 24-28) as liquidity continued to stay in surplus. The current liquidity surplus is estimated at Rs 3.0 trillion.
- While 91-day T-bill rate moved in the band of 6.08% to 6.13% last week, 364-day T-bill rate moved in the range of 6.18%-6.24%. On an average, the yield stayed at the same level for 91-D TBs but fell by 2 bps on 364-D TBs.
- Three-month CP rate hovered in the higher band of 6.55% to 6.61% and the yield on this instrument increased by six bps (on an average) last week.
- Today, call money rate is hovering near the repo rate. Reversal of "previously held reverse repos" is expected to add Rs 224.07 to liquidity. Dealers expect the RBI to continue holding reverse repo auctions to suck excess liquidity out of the banking system.

6. Government bonds seen under pressure this week

- Yield on the 10-year benchmark GOI paper marginally fell by 2 bps last week to 6.44%, as the RBI lowered its key policy rate by 25 bps in line with expectations.
- While the RBI did cut its benchmark repo rate by 25 bps last week, the move had already been factored into the market. Also, there was no other major announcement apart from the rate cut itself, and given that RBI did not change its stance and stressed that inflation is bound to rise going ahead, the reaction of bonds was subdued.
- Given that the current week is one with heavy supply of bonds lined up, appetite for dated securities is likely to be subdued. Apart from today's state development loan auction (Rs 199 bln), the market will also have to absorb Rs 100 bln worth of bonds that the RBI will sell through OMOs on Aug 10th. The OMO sales will be followed by the scheduled weekly gilt auction of Rs 150 bln.

7. INR remains vulnerable to USD revival

- INR further rose by nearly 1.0% last week to 63.58 per US dollar. It took nearly two years for the Indian rupee to break the psychological 64 level.
- The sustained rise of "rupee" has less to do with the external sector fundamentals (which are, in fact, steadily worsening since Mar-17 due to faster growth in imports vis a vis exports) than with Trump's repeated failure in clearing important bills that have led to the weakening of the US dollar.
- While INR has consistently appreciated against the dollar, it has depreciated against the euro and British pound since Mar-Apr, 2017. All Asian currencies including INR are seen stumbling if US dollar revives. Some experts remain skeptical about the continuation of FPI inflows as equity valuations look overstretched and global investors have almost exhausted their purchase limits for Indian bonds.

8. Indian stocks seen choppy this week

- Most of the global stock markets made decent gains last week, the leaders being Hong Kong & Brazil.
- Indian stocks started last week on a strong note but ended it on a flat note, perhaps in reaction to the RBI's rate reduction by 25 bps instead of 50 bps as expected by stock traders.
- There were also jitters due to weak PMI prints, geopolitical tensions and concerns over stock valuations.
- Stock experts see choppiness in stock trading this week too on account of next batch of quarterly results, IIP print for June (likely to be weaker) and the release critical data points on major economies like Japan, China, etc.

9. Brent crude near \$52.14 per bbl in Asian trade today (Aug 8)

- Oil prices slipped further in Asian trading today (Aug 8) following a recovery in output at Libya's largest oil field and as doubts about OPEC-led production cuts continue to weigh on the market.
- Production from Libya's 270,000 barrels-per-day (bpd) Sharara field was returning to normal after a brief disruption. Libya was exempted from a push to cut global production and bolster oil prices led by the OPEC and other big producers like Russia.
- Officials from a joint OPEC and non-OPEC technical committee are meeting in Abu Dhabi on Aug 7-8 to discuss ways to boost compliance with the deal to cut 1.8 mln barrels per day in production.

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